

Congress of the United States
CONGRESSIONAL OVERSIGHT PANEL

Opening Statement of Ted Kaufman

Congressional Oversight Panel Hearing on the TARP and Executive Compensation Restrictions

October 21, 2010

Good morning. My name is Ted Kaufman, and I am the chairman of the Congressional Oversight Panel for the Troubled Asset Relief Program (TARP).

This hearing is my first as the Panel's chairman, so I want to begin by thanking my fellow panelists for their gracious welcome and by recognizing their tremendous work to date. As we all know, the TARP has been among the most controversial government programs in recent memory. Yet month after month this panel has managed to cut through the noise and differing opinions to provide a perspective that is independent, fact-based, and consensus-driven. I hope to help carry our work forward in exactly that spirit.

We are here today to examine executive compensation restrictions in the TARP. In 2008, Congress authorized \$700 billion to bail out the financial system, but the money came with certain strings attached. As a condition of receiving taxpayer aid, companies were required to align their executive pay practices with the public interest.

No one can argue against the "public interest," but in the context of executive pay, it is very difficult to define or measure. After all, a paycheck represents many things. It represents the source of a family's livelihood. It represents an incentive to work hard and achieve results. It represents a tool for retaining workers. It represents the value that an employee adds to the workforce. It represents a cost to the employer's bottom line. And in the case of bailed-out financial institutions, a paycheck represents a transfer of wealth from taxpayers to corporate executives.

A paycheck that is too high is clearly out of step with the public interest. It risks rewarding executives whose mismanagement contributed to the financial crisis and potentially wasting taxpayer dollars. Yet a paycheck that is too low creates problems, too. If a bailed-out bank cannot hold onto talented executives, it may struggle to stay afloat or to repay taxpayers.

Even a paycheck that is neither too high nor too low may still create perverse incentives. A CEO paid \$10 million in company stock may take reckless risks to drive its value to \$20 million. A company can rein in this problem by requiring executives to hold their stock for several years,

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yet even then, executives may refuse to consider measures, such as bankruptcy, that would strengthen the public interest but diminish shareholder profits.

For all of these reasons, executive pay is complicated and controversial, but it is also of profound importance. If Treasury, acting under its authority and leading by its example, can get executive pay right, it could help to lay the foundation for long-term financial stability. Any mistakes, on the other hand, could contribute to the next financial collapse.

Today we will hear from witnesses who have long practice in navigating these turbulent waters. We thank you for your time and look forward to your testimony.

Before we proceed, I would like to offer my colleagues on the Panel an opportunity to make their own opening remarks.